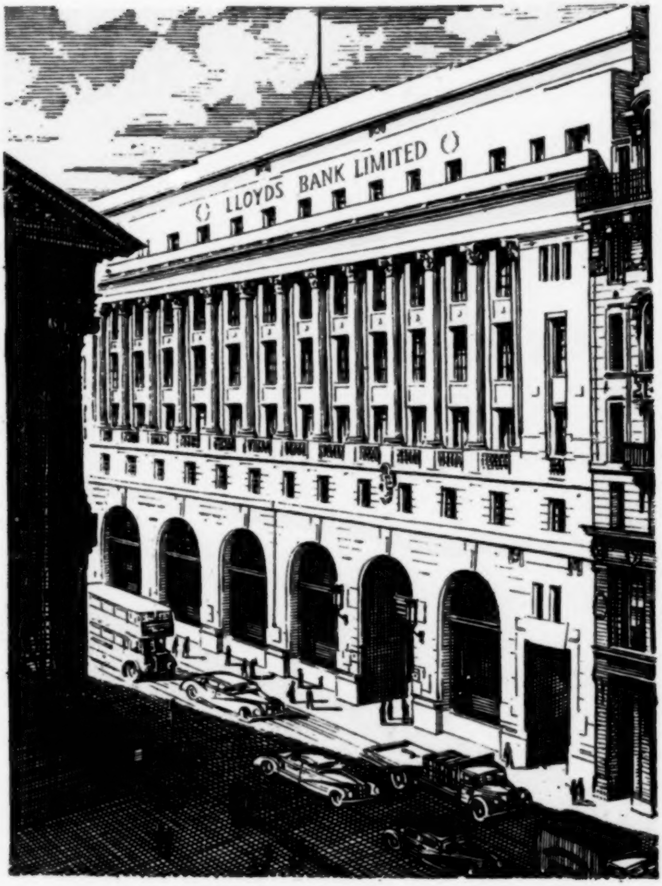

Lloyds Bank Review

APRIL 1957

Lloyds Bank Limited

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Lloyds Bank Review

Editor: W. Manning Dacey

New Series | APRIL, 1957 | No. 44

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Towards a Rational Wages Structure

By B. C. Roberts

EVERYONE is agreed that wages are a crucial factor in the struggle to build up Britain's economic strength. That wages have risen faster than output during the past decade is an obvious fact: from it the conclusion is frequently drawn that the present system of full collective bargaining is mainly responsible for the inflationary pressure from which we have suffered since the war. Many criticisms have been made against the apparent rigidity of wage differentials, and the failure to adjust wage and salary structures, so as to encourage greater mobility and provide more effective incentives, is cited as further evidence of the inadequacy of the prevailing methods of wage fixation.

To some people, the answer to these problems is to be found in the subordination of the present system of collective bargaining to a wage policy nationally determined and administered in the public interest. The trade unions have, however, firmly rejected demands that collective bargaining should be curtailed by anything more far-reaching than voluntary restraint, and they show no signs of altering their point of view. Indeed, at the last Trades Union Congress they adopted a wage policy which, if it meant anything at all, meant that they would prosecute their sectional interests with greater vigour. Employers and successive governments have repeatedly emphasized the danger of excessive wage demands, but they have, in general, supported the attitude of the unions.

The case against adopting a national wage policy from the point of view of its practicability is easy enough to make out, but other countries have had to face a wage-price spiral and reference is often made to the way in which Holland and Sweden have tackled the problem. Both of these countries have experimented with national wage policies of different types, and so too has the United States, though this is not generally known in this country. It is, therefore, worth examining the experience gained overseas, since it might enable us to see our own wage problems in a better perspective.

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II

Before examining the results of national wage policies in the countries cited, it is necessary to outline briefly the institutional arrangements through which the policies have been carried out.

In the United States, a national wage policy was in force from January, 1951, to the end of 1952. It was administered by a Wage Stabilization Board which was made up of representatives of the trade unions, employers and the public. The Board was given legal power to fix and enforce maximum wage levels and its first decision was to freeze all wages. This was obviously not a policy that could last for long and eventually the Board agreed on certain principles that should be applied to enable changes in wages to be made through the ordinary collective bargaining machinery of industry. The unions were allowed to bargain for wage increases, up to certain limits, on the basis of increases in the cost of living and increases in production; employers were allowed to pay more to correct "inter-plant wage inequities"; a certain allowance was made for merit, bonus, overtime and other incentive payments.

Though the Board rapidly recruited a large staff, it was almost overwhelmed by the thousands of applications by unions and employers for permission to raise wages. Each agreement had to be investigated by the Board and soon there was a considerable delay which gave rise to strong criticisms. The Board established its own enforcement division, but the problem of evasion was tackled gingerly; though evasion grew steadily, the Board was reluctant to use its powers of prosecution in the Courts. By the time President Eisenhower was inaugurated, this far-reaching intervention with the freedom of employers to settle their own wage levels had almost ceased to function effectively and it was no surprise that one of his first acts was to abolish the Wage Stabilization Board.

The Netherlands national wage policy has had a much longer history and has penetrated the economic and social life of Holland more deeply. The machinery, established immediately after the Nazi occupation was ended, is tripartite in character, but is far more complicated than was the American system. Three bodies are involved: a government-appointed Board which issues legally binding wage decrees and two tripartite advisory bodies. There is a far closer connection between these institutions and the government

than was the case in America but each party retains its ultimate autonomy and responsibility to its constituents.

In Sweden, the principle of minimum intervention in the relations between employers and trade unions is as strongly entrenched as in Britain. No attempt has been made by the government to impose a national wage policy by law but considerable influence has been exercised through the medium of close consultation with both sides of industry. The unions and the employers are far more centralized than in Britain and there is a tradition of negotiation between the central committees, so that it has been possible for them to agree, in the light of the government's economic forecasts, on a complementary wage policy.

III

The most significant conclusion to be drawn from a close examination of the working of the national wage policies in the countries mentioned is that they have not prevented inflation. Wages and prices went up between 1948 and 1955 as rapidly in Holland and Sweden as in the United Kingdom.

	Holland		Sweden		U.K.		U.S.A.	
	wages	*prices*	*wages*	*prices*	*wages*	*prices*	*wages*	*prices*
1948	80	—	63	77	74	77	76	90
1949	81	81	65	78	77	79	79	90
1950	89	88	68	79	80	81	82	90
1951	95	99	84	91	87	89	90	97
1952	98	100	98	98	95	97	94	99
1953	100	100	100	100	100	100	100	100
1954	116	104	104	101	106	102	102	100
1955	119	106	111	104	114	106	106	100
1956[1]	125	108	122	108	123	112	111	102

[1] 2nd Quarter

The much slower advance in wages and prices achieved in the United States was not due to the national wage policy, which was in operation only for the two years 1951 and 1952.

It is possible that during those two years wages would have climbed more steeply had they not been controlled; but, whatever result the Wage Stabilization Board may have had in this short time, it is abundantly clear that over the longer period some other factor must have been responsible for America having had less inflation than Holland, Sweden and Britain.

One important reason why a national wage policy cannot be relied upon as a check to inflationary demand is that it is very difficult to enforce. Formally, negotiated wage rates may be controlled but employers can always find a way round such controls. The difficulties encountered by the American authorities in this respect have already been mentioned.

The extent to which inflationary pressure has drawn wages upwards in Britain, Holland and Sweden is apparent from the way in which earnings have tended to pull away from wage rates. In all three countries there has been a tremendous growth in special payments by employers to circumvent the nationally-negotiated wage rates, which have invariably been fixed at levels well below the market price for labour. When profits are running at such a level that it pays an employer to exceed the agreed wage rate in order to obtain the labour he requires, it becomes impossible in a democratic society to hold wages down. In other words, the problem has to be tackled at a more fundamental level.

The Swedish trade unions have recognized that stability cannot be secured by wage policy and they have openly stated that it is the responsibility of the government to use monetary and fiscal measures designed to keep the level of purchasing power within non-inflationary bounds. They have also recognized that this will mean, in practice, a level of employment less than brimful. The Swedish T.U.C. thinks that this is a price worth paying, because it frees the unions from the necessity of exercising unreasonable restraint in their wage demands. Wage restraint, they point out, is not only in the long run impossible, if the state of the labour market compels employers, by bidding against each other, to raise wages; it is also disastrous to the unity and effectiveness of the unions.

The Swedish unions, however, have emphasized the importance of dealing with pockets of structural unemployment that might occur if demand were kept at a level consistent with the maintenance of stable prices. To reduce this

problem to the smallest scale, much greater efforts should be made to encourage mobility. The State might provide transfer grants and other assistance to secure the movement of workers into the industries where they were needed. Industry itself could vastly improve the scope of redundancy agreements to give greater security to those who lose their jobs through no fault of their own. Adequate unemployment compensation is an urgently needed reform; a guaranteed income on redundancy, for a period, of sixty-five per cent of previous wages as now provided by a growing number of American industries, would greatly help to overcome the resistance to the redeployment of labour.

The attitude of the British T.U.C. towards the problem of inflation, as recently displayed in its submissions on the Budget, is in sharp contrast to that of the Swedish Trades Union Congress. The British T.U.C. continues to believe that it is possible to have both stable prices and a level of demand that maintains a situation where there are more jobs available than men to fill them. Fear that mass unemployment might suddenly reappear still dominates the thinking of most British trade unionists and prevents them from seeing the problems of maintaining stability with a very high level of employment as coolly as do their Swedish counterparts. It is greatly to be regretted that the General Council of the T.U.C. did not allow the publication of its own economic survey which seriously tried to grapple with these problems: it would have provided a much needed basis for a real discussion of the basic issues.

There can be little doubt that a higher level of unemployment is one of the principal reasons why prices have not risen as much in America as in the three European countries. Whereas unemployment has averaged about 1½ per cent. in Britain and 2 per cent. in Holland and Sweden, it has been about 4 per cent. in America during the past ten years. It does not follow that unemployment would have to rise to 4 per cent. in Britain before stable prices could be assured; it is, however, almost certain that stable prices cannot be maintained at a level of demand that keeps unemployment much lower than 2 per cent.

In the Netherlands, for example, prices were held almost stable from 1951 to 1953. While it is true that a national wage policy was in operation during this period, it was not this which ensured the stability of prices. That was the result of

the adoption of a vigorous anti-inflationary monetary and fiscal policy that involved a rise in unemployment to 3.5 per cent. No post-war British government has had the courage to tackle the problem of inflation as resolutely as it was tackled in the Netherlands during this period. After struggling for several years with a persistently adverse balance of payments, made suddenly much worse by the Korean boom, the Netherlands government, with the support of the unions, decided in 1951 to lower home demand by five per cent. This was achieved by cutting subsidies and extending indirect taxes, by regulations designed to cut profit margins, by a system of quantitative credit controls, the raising of Bank Rate and the collection of substantial arrears of taxation owed by private companies. Government borrowing was reduced and expenditure on house building was curtailed.

As a result of these measures, prices rose by 10 per cent., whereas by agreement wages were allowed to rise by only 5 per cent. By the middle of the following year, the balance of payments had been dramatically improved, industrial expansion had begun to go ahead on a sound basis and productivity was beginning to rise. The government gradually relaxed its policy and investment and stocks rose sharply. Employment crept up and eventually the government had to agree to wages rising. The unions, on the mounting tide of prosperity, were able to push up wages by no less than 16 per cent. in the course of a year. The government managed to prevent any official increase in wages in 1955, but as the boom continued evasion grew and the unions became increasingly restless. It was only substantial concessions by the government, in 1956, that enabled the system of centralized wage controls, which was on the verge of a complete breakdown, to be saved. Since wages could not be held in check to a degree sufficient to halt the inflationary expansion, the Netherlands government has had again to launch a more orthodox counter-inflationary policy of restricting credit and reducing its own expenditure.

Experience in the post-war years has shown that the dampening of wage movements, whether by regulation as in Holland, or by voluntary restraint as in Sweden and Britain, can be only of temporary value as a means of preventing inflation. The special efforts to hold wages down that were made in Britain between 1948 and 1949, in Sweden in 1949 and 1950 and in Holland from 1951 to 1953 were followed, in each

case, by an explosive expansion which brought wages up to the levels they would probably have attained had there been no curb on their increase.

It was, in fact, impossible to hold wages down without resorting to totalitarian measures once a considerable economic expansion was under way. In a free society, the bargaining pressures employed by trade unions cannot be suppressed simply by the establishment of a national wages board. As the Dutch have discovered, centralization of wage determination does not mean that the demands of the unions are easier to resist in the long run. It may be possible to persuade the trade unions to follow for a time a policy contrary to that which is indicated by the general course of economic events, but there is no evidence to show that trade unions will pursue this policy for long. Even if they did, wages would still rise, if inflation continued, since employers would pull them up, by one means or another, to a truer economic level.

It is now quite clear that if in Britain we are to have stable prices and solve our balance of payments problem, the government must continue its anti-inflationary monetary and budgetary policies. If aggregate demands were kept at a non-inflationary level the unions could be allowed to pursue a rigorous wage policy, as they do in the United States, without much fear of inflationary consequences. Since employers would not be able to pass on wage increases in the form of higher prices so easily as they have done during the past several years, they would naturally resist wage demands more firmly. There would probably be some concessions at the expense of profit margins, but the rate of wage increase that could be obtained by the unions would be determined by the speed at which the national income expanded.

As the pace at which money wages could advance would be much slower than under inflationary conditions, it is possible that it would not satisfy the desires of the union members, and resort to strike action might for a time become more common. If this were to happen it would be unfortunate but no reason for despair. It is unlikely in the British context of industrial relations that strike losses would reach the magnitude of those experienced in the United States. Indeed, if they did, they would not outweigh the advantages that would be gained from a more stable economy. Moreover, it has not to be forgotten that, under the conditions foreseen, the demands made upon employers by unions would lead to much

greater efforts to redeploy labour, to reduce costs and raise output. It is the view of many American economists that the constant pressure exerted by the trade unions has been one of the most important factors promoting the restless search for better methods by management in the United States. Though conditions here are by no means identical, a more dynamic trade union policy might have highly beneficial results.

IV

The aggregate level of wages is not the only aspect of wage determination that has been called in question under full employment. The structure of wages that has emerged has been widely criticized as failing to reflect the needs of changing social, economic and industrial circumstances. It has been suggested that inappropriate differentials are maintained because they are determined by the power of sectional interests rather than by objective criteria. There can be no doubt that present wage structures are often unsatisfactory from the point of view of encouraging maximum productivity, adequate mobility, greater responsibility and better industrial relations. From what direction is improvement to come? By means of further centralization, as desired by some critics, or by a change in collective bargaining in the opposite direction?

Many people feel that wage differentials have been narrowed too much and that Britain's economic health would benefit if they were widened. During the past forty years the difference between the wage rates paid to unskilled and skilled workers has been halved in many industries. Clerical and supervisory staffs used to enjoy considerable advantages over wage earners, in income and working conditions, but the difference in wages, holidays with pay, pension and sickness provisions has been greatly reduced. Professor Lloyd Reynolds has recently shown that there has also been a substantial reduction of inter-industry wage differentials since 1939.[1] There has, in fact, been a substantial reduction in all types of differential in most industrial countries during the past fifty years.

The range of differentials appears to be closely correlated with industrial development. In the early stages of industrialization differentials are extremely wide, as today, for example, in India and Asia, but they tend to narrow over time as the

[1] *The Evolution of Wage Structure* by L. G. Reynolds and C. H. Taft.

supply of industrial skills expands. It is extremely difficult to estimate the effect on this development of the growth of trade unionism and collective bargaining, and expert opinion on it is divided. There is, however, reason to believe that, though trade unions have not been the progenitors of the narrowing process, they have given it additional impetus.

One of the principle objectives of the trade unions has been to establish uniform rates for given occupations and to reduce the differences between industries. The elimination of competitive bargaining was acceptable to the employers, who felt that they could better safeguard their interests by entering into a national collective agreement than by each making his own arrangements. National agreements could not and did not lead to a flat uniformity of wage rates irrespective of the economic factors involved, but they did contribute towards the levelling that was being brought about by more fundamental changes.

Differentials seem to have narrowed most rapidly during the inflationary periods, 1914 to 1920 and 1939 to 1950. The relatively greater increase in the wages of the lower income groups can be explained simply by changes in the supply and demand for different grades of labour, but undoubtedly the wage policy of the unions contributed to the developments. In both periods, the unions asked for flat-rate increases based on changes in the cost of living and awards usually followed this pattern whether they were made by statutory wage-fixing bodies or were the result of collective bargaining. The effect was to maintain differentials in money terms, but to reduce them on a percentage basis.

Since about 1950 there has been a growing tendency, on both sides of industry, to question the wisdom of carrying this trend any further. There is, in fact, evidence indicating that a substantial revolt against the principle of uniformity has occurred in the past few years. Acute conflict has occurred in the printing industry and on the railways over the question of widening differentials. In a number of other industries, including engineering, recent wage claims have been made on a percentage basis. Perhaps the most significant evidence that the wage rate structure is unbalanced is the spread of actual earnings. The nationally-agreed wage rate, more often than not, bears little relation to the wages that a man earns. In order to obtain the labour that they have required, employers

have entered into local agreements with shop stewards, or on their own initiative have increased wages to levels indicated by conditions in their own labour market. Since the Ministry of Labour does not publish occupational earnings figures—a major gap in our statistics—it is difficult to assess the changes that have occurred; but there can be little doubt that the pattern of actual money payments reflects the real pressures in the labour market far more accurately than the structure of nationally-negotiated money wage rates.

A similar situation prevails in Holland and Sweden, where determined efforts have been made to establish and enforce a national policy designed to reduce differentials to a minimum. The founders of the Netherlands wage system firmly believed that a much fairer and economically more desirable pattern of differentials could be achieved by a centrally-determined policy imposed by law than by allowing employers and unions freely to decide for themselves.

The first step was to establish a national minimum wage for unskilled workers and to fix the semi-skilled workers' basic rate at ten per cent. and the skilled workers' rate at twenty per cent. above the minimum. Under the aegis of the Foundation of Labour, a body of experts was established to work out, on the basis of equitable job evaluation, a comprehensive scheme of occupational differentials. Special allowances were made for merit and bonus rewards, but no industry was to pay higher wages simply because it could afford to do so as a result of its favourable economic position.

The introduction of job evaluation on a widespread scale brought benefits to industry in the Netherlands, since the systematic revision of wage structures drew attention to inefficiencies that might otherwise have escaped notice but the pattern of differentials established proved too rigid and too artificial. Opposition to the policy grew among employers and the non-socialist trade unions, and in 1955 the Social and Economic Council recommended that it should be possible for individual employers to diverge from the official regulations. Since then, the policy has been relaxed in the interest of greater flexibility. It is claimed by the authorities that they still adhere to the basic principle of central co-ordination of wage differentials. But since deviation is now legally permitted, it seems certain that, in future, wage payments will be officially determined more by economic facts than by social theories.

Though there is no nationally-imposed wage policy in Sweden, the trade unions there have long pursued a policy of reducing occupational and inter-industrial differentials. They have not, however, pushed this policy to extremes. Employers have found no difficulty in paying more than the negotiated rates when this has suited their purpose and actual earnings have differed considerably from planned levels. These deviations from the policy pursued by the central organization of the unions have prevented wage differentials in Sweden from narrowing to a point where they threaten to obstruct the mobility of labour.

What has become clear is that wage structures, whether determined by collective bargaining or legal regulation, are not likely to prove satisfactory if established at the national level. Local labour markets are far more important than has been assumed by both employers and trade unions; cognizance of this fact ought to be taken when wage rates are fixed. This does not mean that national agreements ought to be abandoned entirely, since there is a need to set minimum standards. It does mean, however, that the unions should pay far more official attention to plant wage agreements than they have done in the past.

Industry-wide collective bargaining grew out of an economic situation where mass unemployment was a recurring feature. It was a defensive instrument devised by the unions to protect the weakest sections of organized labour from the downward pressure on wage rates that was generated by the existence of a horde of jobless workers ready to accept employment at cut rates. Since the war, in conditions of overfull employment, the employers have found national agreements a useful means of protection from the bargaining strength of the unions. The leaders of the unions have not been willing to change their established pattern of bargaining for several reasons. They have had a genuine fear that such a step might result in weakening the bargaining position of the unions, that it would lead to the undermining of their own prestige and power, and to the possible disintegration of the established structure of union organization.

As this is being written, unions and employers are desperately seeking to establish a wage rate for three million workers in the so-called "engineering industry", although both sides must know that this will leave the real problems untouched. If collective bargaining is to be a constructive

method of wage determination, it must break loose from a situation in which what is at issue is synthetically manufactured to satisfy an outdated concept of wage policy. It should also be added that the government ought not to conceive its function as that of stepping between the parties, as soon as a a serious conflict threatens, without careful consideration whether intervention will not consolidate a pattern of collective bargaining that events might otherwise change for the better.

Failure to adjust the traditional pattern of industry-wide bargaining has unfortunately led, not to a national revision of wage structures but to a series of mutually accepted yet undesirable practices to satisfy market demands for higher pay. Overtime and week-end shifts are often guaranteed whether they are necessary or not, loose piece rates and various "fiddles" are tolerated because they are an easy way of providing the extra increment that will keep workers satisfied.

In many firms today, wage structure has lost all meaning. Bonus and overtime payments often account for a major portion of the wage. This development has certain attractions to many employers, since it appears to leave them free from definite commitments which apply only to the basic rate. This, however, is a dangerous fallacy, since workpeople adjust their way of life to the regular size of their pay packet. They think not in terms of doing a job as efficiently as possible, but in terms of receiving the maximum amount of overtime and week-end work. When they feel that their income is insecure they take steps to protect themselves as best they may. They fear and resent any change that might appear to threaten their status; they develop militant shop stewards and seek to offset the weak position they know they are in by adopting aggressive, defensive and restrictive tactics.

Far too few firms have yet paid serious attention to their wage structures. There are countless cases of fantastically inefficient and inequitable bonus systems in British industry, obstructing rather than encouraging maximum output. In some of our most famous enterprises it is privately admitted by unions and management that output could be greatly increased if certain radical reforms were made.

We have a situation in which piece rates have become a substitute for proper supervision, in which overtime and Sunday shifts have become a substitute for an appropriate wage rate and in which trade unions, as national organizations, appear to the man on the shop floor to be more often than not

concerned with the shadow rather than the substance. Is it then surprising that most of the friction that occurs in British industry arises out of disputes at the plant level? Whereas in the United States most strikes occur as part of a calculated strategy to obtain higher wages, in Britain they only very, very, rarely occur for this reason. Most British strikes arise from attempts by shop stewards to prevent some change which they think will adversely affect their interests; they are frequently unofficial and directed as much against the national leadership of the union as they are against the employer.

What is most urgently required is that this situation should be tackled by the unions and managements with vigour. If the full benefit of technological advance is to be realized in the next decade, great changes in the methods and structure of wage payments will have to be made. With the development of automation, piece-rate systems will have to give way to straight time rates, since output will no longer depend on individual effort. New skills and new responsibilities will compel the working out of a new pattern of differentials and new ways of rewarding merit, efficiency and experience.

The problems raised in this article can only be solved by a revision of the present structure of collective bargaining. The evolution of a policy which will lead to the development of efficient and speedy negotiating procedures at the relevant level, it is realized, has tremendous implications for both trade unions and employers' organizations, since both have acquired vested interests in the existing machinery of collective bargaining. However, if industrial relations are not to be marred by repetitions of such depressing spectacles as the Rolls Royce and Briggs Motor Bodies disputes, to name but two out of dozens in recent years, labour management will have to be vastly improved and the unions will have to exercise effective control over their representatives at the place of work. There is much to be learned from developments that have been made overseas: not, however, from national wage policies, but on the handling of problems at the most important point of all, the place of work, where at present the British system of industrial relations is weakest.

B. C. Roberts.

The London School of Economics.
March, 1957.

Agriculture and the European Plan

By E. M. H. Lloyd.

WHEN the British government announced their willingness, in November last, to join the projected Free Trade Area, it was on the condition that foodstuffs should be excluded from its scope; and it is partly because of this proviso that the proposed association of the French and Belgian colonies with the Customs Union is presenting difficult problems for this country. On the other hand, the six Messina powers (Belgium, France, Germany, Italy, Luxembourg and the Netherlands) propose to include foodstuffs in their plan for a common market, subject to special arrangements for organizing the agricultural sector. This article will examine the basis of the British objections to the inclusion of foodstuffs and also what is meant by the "special arrangements" for agricultural products contemplated by the Messina powers. Finally, it will be suggested that a compromise is possible between the two standpoints, based on the programme of co-operation and common action outlined in the First Report of O.E.E.C.'s Ministerial Committee for Agriculture and Food.

As so often in international negotiations, the clash seems to be partly due to the use of expressions which mean one thing in French and something rather different when translated into their nearest English equivalent. Thus, when the French speak of "organization of an agricultural common market" they do not mean establishing facilities for traders to buy and sell freely in a common market regardless of national frontiers, which it might be supposed to mean in English. They mean something quite different: namely, extending to the whole of Western Europe a system of state intervention and monopolistic control of prices and distribution, which to us is the opposite of a free market. In other words, they reject any semblance of a *free* common market and propose instead to set up a European organization to regulate production and distribution of wheat, sugar, wine etc., much as our Hops

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Mr. Lloyd, Under Secretary in the Ministry of Food from 1947 to 1953, is a recognized authority on international agricultural problems, with which he was concerned during a large part of his civil service career.

Marketing Board and Milk Marketing Board do for hops and milk.

This ambiguity as to what the two sides are talking about has been, and still is, a source of some confusion which needs to be cleared up. It may be useful therefore to enquire what would be the difference in practice between the inclusion of agricultural products in a free trade area and their exclusion from it.

* * *

The British government's reasons for excluding foodstuffs, given in the White Paper on the European free trade area (*Cmnd.* 72), were the need for maintaining Commonwealth preferences and protection for home agriculture. At the same time, the O.E.E.C. Working Party appointed to examine the implications of such a free trade area has published its Report.

This Report says that most members of the Working Party considered that the free trade area should comprise all the categories of goods which the O.E.E.C. countries produce and trade between themselves, though they admit that trade in agricultural products might be governed by a special system. Indeed, without this it would be impossible to achieve reciprocity between countries exporting agricultural products and exporters of industrial products. The U.K. representative pointed out that a free trade area as defined in the General Agreement on Tariffs and Trade (G.A.T.T.) implied that import duties and other restrictive regulations should be eliminated. If trade in agricultural products were to be governed by some special system of regulated marketing, such as the six countries forming a Customs and Economic Union might propose, that would be contrary to the idea of a free trade area and "could not ensure real freedom of trade in agricultural products."

What then is the "special system" proposed by the six Messina powers? In the Working Party's Report, we are told that the six countries have decided to include agriculture in their Customs and Economic Union; and that they envisage other methods of bringing to an end the existence of separate agricultural markets—the principal one being "the formation of an agricultural common market, through the common organisation of the markets of the different countries of the

Union for a number of basic products". The Working Party adds, with a dry note of implied scepticism as to what this all means, that it "has, however, no detailed information about these methods at the time of drafting its Report".

In the White Paper, the U.K. government are slightly more explicit. After making it clear that they would not be prepared to remove protection in the agricultural field and to admit free entry of foodstuffs, as is intended for other products, they add: "nor would Her Majesty's Government expect other countries to take such action. Indeed it appears to be the intention of the Messina Powers to institute a regulated market for agricultural produce, rather than a free market as is proposed for industrial products."

The question then arises, if the Messina powers are thinking in terms of a regulated market and not free trade for agricultural products, why does the British government feel so strongly that agricultural products should not be included in the hybrid sort of free trade area, or common market, which the Continental powers are anxious for the U.K. to join? The answer given in the White Paper is that "any special arrangements for agricultural produce, if restrictive in character, might clearly give rise to difficulty in securing international agreement."

This answer is hardly likely to satisfy M. Spaak and his European colleagues. Of course there is bound to be difficulty in securing international agreement to any special arrangements for agricultural produce. The Food and Agriculture Committee of O.E.E.C. has had plenty of experience of that since it was set up nine years ago. But need a regulated common market always be undesirably restrictive in character? One of the methods of regulation to be adopted, which most countries, including Commonwealth exporters, would have reason to welcome, might well be restriction of dumping and of subsidized exports. On this particular question a large measure of agreement has already been reached—at any rate, as the French say, *en principe*. What remains is for governments to announce that they are willing and able to act accordingly. The White Paper in fact contains this important sentence: "It is of course the intention of Her Majesty's Government to continue to play a full part in the work of the Ministerial Food and Agriculture Committee and other organs of O.E.E.C. concerned with trade in agricultural products"; and the U.K. representative in the O.E.E.C. Working Party

said that the U.K., while rejecting free trade, was willing to co-operate in "any other measures designed to expand trade in agricultural products."

The U.K. position may thus be summed up in the following propositions:

1) It favours a free trade area as defined by G.A.T.T. for industry but not for agriculture.
2) Duty-free entry of foodstuffs must be excluded
   (*a*) because of Commonwealth preference and
   (*b*) because protection for home agriculture must be continued.
3) H.M.G. does not, however, expect the six Messina countries to abolish protection in this field. A regulated market rather than a free market is proposed for agricultural produce, though it may be difficult to get agreement on this.
4) H.M.G. will, however, continue in any case to co-operate with O.E.E.C. in measures designed to expand trade in agricultural products.

If the six Messina powers and the majority of the O.E.E.C. member countries accept the first two propositions, it seems not impossible to arrive at a compromise formula based on the last two propositions. This leads us to examine what proposals for a regulated market, and measures to expand trade in agricultural products, might involve. For this purpose we need to recall some recent history.

* * *

The *Mansholt Plan* for an Agricultural Community under a High Authority on the model of the European Coal and Steel Community, and a European organization of agricultural markets, was put forward in November, 1950. The essential features were: fixing of stable prices for intra-European trade; national protection to be subject to control and to be gradually eliminated; and national prices to vary according to the degree of protection in force.

The *Charpentier Plan* submitted to the Council of Europe was similar in proposing the setting up of a High Authority which would aim at a gradual unification of agricultural markets. A European price, or a range of maximum and minimum prices, would be fixed for each main product, based on the average of the different countries, while compensating

levies would be imposed and collected by the High Authority, based on the difference between the European price and the national price. National protection would be retained. At a later stage, national production programmes would be co-ordinated and countries would be "directed" towards forms of production for which they were best fitted. In the final stage, total unification would be effected, the levying of compensatory duties would cease, and thereafter there would be free exchange of agricultural products at prices fixed by the High Authority.

These plans were criticized by Sir David Eccles in the Report of the commission of seven appointed by the Consultative Assembly of the Council of Europe. He doubted whether a supra-national organization would ever be set up with sufficient powers to act successfully, and suggested that an inter-governmental authority would be preferable, to make recommendations on tariffs and quotas, stock-piling, long-term contracts and international agreements with outside countries.

Later, in April, 1951, the French government put forward the so-called *Pflimlin Plan* which proposed the creation, as a first step, of a common market for certain key products (wheat, sugar, dairy products and wine), to be followed later by similar arrangements for other agricultural products. M. Pflimlin attached special importance to the creation of a European Wheat Office, which would function much like the French *Office de Blé* as a price-fixing monopoly regulating imports from the outside world.

During 1952, an *ad hoc* Conference of O.E.E.C. Ministers of Agriculture met in Paris and entrusted to its Interim Committee the job of examining these and other plans for the integration of European agriculture and organization of markets. This developed into a long-drawn-out discussion about setting up a new organization called the "Green Pool." Agreement was finally reached on the creation, within the framework of O.E.E.C., of a Ministerial Committee for Agriculture and Food, to be serviced by a special Directorate of the O.E.E.C. Secretariat. Spain was admitted as a full member of this Committee, though she is not a member of the O.E.E.C. itself.

The work of the Interim Committee revealed deep cleavage in the attitude of member governments. Fundamentally, the issue resolved itself into a choice between two

approaches to the problem: either liberalization of trade in the broadest sense, with unrestricted price formation in a free market, or various forms of planning and control with fixed prices and assured markets—for which the French have the convenient word *dirigisme*. This issue has been dealt with in many of the unpublished reports of the former O.E.E.C. Food and Agriculture Committee, in particular in a study of the "Integration of the Agricultural Sector". The conclusion the Committee reached was that complete integration of agricultural production and trade would involve fiscal and monetary union, if not political federation; but that there might be scope for multilateral arrangements for regulating exports if and when prices in importing countries fell to a dangerously low level.

The decision to appoint a Ministerial Committee in O.E.E.C. was largely due to the firm attitude of the British government. Their view prevailed over those of France and Germany, which aimed at creating an autonomous organization for agriculture independent of O.E.E.C. and in which farm organizations of the various countries would be invited to take part. The decision to remain within the fold of O.E.E.C. was also to some extent a victory for those who advocated liberalization and freer markets for agriculture and a set-back to the countries that stood for price-fixing and *dirigisme*. It was noteworthy that the British ranged themselves on this issue with the advocates of greater freedom.

The Ministerial Committee for Agriculture and Food, in the creation of which the U.K. played such an important part, has now been at work for more than two years. Its First Report, published in May, 1956, discusses the prospects of securing better co-ordination of agricultural policies and the best methods of reconciling national price support measures with expansion and liberalization of trade. The Report brings out clearly that import restrictions and export subsidies are the corollaries of internal price policies designed to maintain farm incomes.

A number of questions were posed as criteria for judging present national policies, among them the following:

> Can production for export find outlets without disturbing the markets for other countries?
>
> Are the efforts towards increased productivity sufficiently geared towards increasing productivity per man?

> Is sufficient attention being paid, . . . to decreasing surplus manpower in agriculture?
>
> Are steps being taken to promote the retraining of surplus agricultural workers?
>
> Are the regulations concerning imports of agricultural products sufficiently flexible to allow the internal prices, . . . and costs of production, to be reasonably influenced by price changes on external markets?

It is fairly evident from the context that if these questions were translated into Latin, they would have to be preceded by *num* and not by *nonne*, since the answer would nearly always be "No!"

Countries were urged to aim at more flexibility in their measures of price and income support, so as "to avoid stimulating production at too high a cost". Consultations about price support measures should be held, it was proposed, under the auspices of the Committee of Ministers of Agriculture and Food "to see what possibilities exist, through national and common actions, to achieve a gradual coordination of price policies".

Following a decision of the O.E.E.C. Council in January, 1955, calling for substantial progress in the liberalization of foodstuffs and agricultural products, the Ministerial Committee decided to examine "new methods of assisting the organisation of agricultural markets through a rational development of trade." This was taken to imply "gradual relaxation of import controls and restrictions", and possibly increasing existing import quotas of food and agricultural products by a certain percentage. There would be consultations at which all countries would explain their difficulties and some would be asked to adjust excessive restrictions and tariff duties. In particular, they would be asked (*a*) not to intensify measures of protection as a stimulant in sectors where production is already showing a surplus or is likely to do so, and (*b*) to consider gradual abolition of the measures which help to encourage the expansion of production in areas where it is most uneconomic. The Committee adds that the definition of such a policy is all the more urgent as "full trade liberalisation seems impossible to achieve in the near future."

In addition to percentage reductions in import restrictions, the Report recommends two other possibilities of special note: first, *seasonal* liberalization, under which import quotas or prohibitions are applied during the season when home

production is at its height and, secondly, regulation of exports by reference to agreed minimum prices. Both these methods of control, which of course conflict with free trade and full liberalization, are now in force for regulating the trade in horticultural products between Germany and her principal suppliers, the Netherlands and Italy, and also for a wide range of products under the Benelux Customs Union between the Netherlands and Belgium. Closely linked with proposals for regulating exports when prices in the importing country fall below an agreed level, is the recommendation that prevailing systems of "aids to exports" should be re-examined and gradually eliminated.

The emphasis given in the Report to the vexed question of aids to exports is significant. The underlying problem is, of course, the existence of methods of price support which lead to the creation of a surplus that can be disposed of only by selling it abroad below the price ruling in the domestic market. Indeed, as the O.E.E.C. Report points out, aid for exports is almost an inevitable corollary of artificial stimulation of production. In the case of wheat, for example, France, Sweden and Turkey produce a surplus which can be sold abroad only below the domestic guaranteed price. In the case of livestock products, which can fairly easily be expanded in any country of North West Europe when the guaranteed price is sufficiently attractive, the end result of price support policies, carried to their logical extreme, is that each country produces a surplus for export which neighbouring countries have no need to import at any price.

Price support, whether it is implemented by protective duties or by subsidies in the form of deficiency payments, always tends to have the same result. Suppose, for example, that there are three countries, of which A is normally an importer, B a traditional exporter, and C normally self-supporting, with neither exports nor imports. Let us suppose, now, that production in country C increases and that, in order to prevent a fall in the domestic price or to implement a price guarantee, it is decided to subsidize exports. If the surplus production is sent to the importing country, A, then the traditional exporter, B, is faced with unfair competition. But this is not the only way in which international trade in agricultural products may be distorted or strangled. Let us suppose instead that the importing country, A, stimulates its internal production by means of a subsidy. This may drive

down prices in its market to a level at which the exporters of country B can no longer sell with profit, so that they are faced with the loss of their traditional market.

It follows that no country can legitimately claim, as is done at present, that its own production targets and farm income policies are matters of purely domestic concern. Such policies must inevitably affect the flow of international trade. If there is to be co-ordination of price policies, therefore, there must be international understanding about the seemingly domestic policies to be pursued in each country. Undertakings not to subsidize dumping or to refrain from imposing prohibitive import restrictions do not go far enough; agreement must embrace the whole field of price support. There is, unfortunately, no short cut to a solution by treating the problem as one merely of commercial policy. The long-term problem is the co-ordination of agricultural policy in all its aspects—particularly the methods adopted for regulating internal prices and maintaining farm incomes.

* * *

During the last ten years the degree of price control and the objectives of price policy have undergone profound changes. Four different phases of price policy may be distinguished. Immediately after the war, the two main preoccupations were to stimulate farm output and to check the rise in food prices. This involved encouragement of bread grains and potatoes at the expense of livestock, and strict control of retail prices by rationing. As world food supplies improved, war-time controls were relaxed and the main object of agricultural policy in each country became selective expansion designed to improve the balance of payments.

The third stage, which has now been reached in most countries of Western Europe, is a growing pre-occupation with the maintenance of farm incomes at a level comparable to that earned in industry, or at least with securing for producers higher incomes than they would obtain if prices were settled by free competition. In nearly every country, prices of the most important farm products are by various devices prevented from falling below a minimum remunerative level. First, import duties and quotas enable the price to be maintained above that ruling in international trade; second, payment of

an export subsidy facilitates disposal of any domestic surplus that would depress prices and, thirdly, the home market may be regulated by marketing boards and equalization funds in such a way as to maintain a given price and avoid a surplus. This may involve a guaranteed price, maintained either by deficiency payments from public funds, as in the U.K., or through restriction of home production by acreage control or marketing quotas, as in the United States.

None of these methods of price support is free from objection. Many of them constitute temporary adjustments rather than long-term solutions. Protective tariffs and guaranteed prices may give rise to a surplus which has to be disposed of at a loss. Attempts to avoid this have led to various modifications of price support policy. Thus, the guaranteed price may be limited to the quantity required to meet the requirements of the home market, leaving part of the loss on exports to be borne by producers, as in the case of French wheat. A second and more obvious course is to reduce the support price for those products of which there is a surplus above domestic needs, so as to discourage the excess production and divert the resources and labour thus wastefully employed to other and more profitable uses. But this encounters political difficulties, since it involves reduction in farm incomes.

In some countries, the policy of supporting farm incomes appears now to be taking a new direction. Increasing attention is being given to the wide variations that exist inside each country in the costs of production and profitability of farming. Hitherto, the general practice has been to give price support to all producers, efficient and inefficient alike. The newer approach is to extend special assistance, in the form of differential prices or production grants, to help the less efficient farms or the producers in regions specially handicapped by climate, soil or lack of public facilities and amenities. Among the most important of these production grants are subsidies for what the French call *remembrement* (consolidation of strip holdings) and for the amalgamation, enlargement and re-equipment of small farms to enable them to become economically viable units.

* * *

The Report of O.E.E.C.'s Ministerial Committee for Agriculture and Food reveals a wide measure of agreement

on the way to make European agriculture more prosperous and efficient. It also takes account of the enormous political difficulties of making rapid changes affecting the way of life of millions of peasants and small farmers. To talk of free trade and sweeping away all forms of protection and price support for agriculture is irrelevant except as an academic exercise. No country, as the White Paper rightly says, is thinking of giving up protection for its agriculture. Even Denmark protects her fruit growers.

But if the above extracts from the O.E.E.C. Report can be accepted by Ministers of Agriculture as a practicable programme for the next few years, this can surely be regarded as part of any "special arrangements" for agriculture parallel to, and corresponding to, the approach to free trade for industry. The objective would be to expand trade in agricultural products, first by further liberalization and removal of quota restrictions, secondly by reduction of excessive tariff duties and, thirdly, by eliminating dumping and "aids to export". This would still leave room in appropriate cases for commodity agreements designed to promote stability and orderly marketing. For these there may be limited scope, but only after full examination of the special problems of each commodity.

Taking first cereals, the outlines of what is likely to be proposed by the Messina Six is already clear. The French want a European Wheat Agreement, under which importing countries would undertake to buy a certain percentage of their wheat requirements from France at a stable level of prices to be negotiated. These prices would at the outset be rather higher than the range of prices laid down in the International Wheat Agreement.

While the U.K. would have no objection to such an agreement being made by the Messina countries themselves—and by other countries, such as Turkey and Sweden, that might care to come in as exporters—we should wish to preserve freedom of action for importing countries joining the free trade area to participate in such commodity agreements or not as they thought fit. The U.K. would certainly be unable to join. We have no import duty on wheat and no import restrictions; no question of Commonwealth preference therefore arises. The U.K. can indeed claim that we alone (with Denmark) would be in a position to include wheat in a free trade area in the sense defined by G.A.T.T., and that

it is the Six, with their state trading, preferential prices and tariff protection against the outside world, that are rejecting the principle of free trade. For coarse grains, no commodity agreement has been proposed or is needed.

In the case of sugar, the U.K., like other countries of Western Europe, is a party to the International Sugar Agreement. As with wheat, the U.K. need not object to a regional sugar agreement among the Six for regulating imports, exports, production and prices among themselves; but she would not wish to participate. There might, of course, be problems relating to competitive exports to the rest of the world and to U.K. exports to O.E.E.C. countries; but these could be dealt with as questions of commercial policy covered by G.A.T.T. and the O.E.E.C. Convention. Similarly, France, Germany and Italy might succeed one day, in spite of the failure of previous attempts, in establishing a joint cartel for regulating the production, distribution and prices of wine; but the U.K. would have no place in such a cartel.

That leaves meat, dairy produce, and fruit and vegetables. Here, the U.K. is deeply interested and the question arises what "special system" for regulating the market is contemplated. Take butter, for example. There is an extremely wide range of prices in West European countries, with Denmark and the Netherlands as the principal exporters. New Zealand and Australia between them supply more than half the total world exports of butter, which amounted to 460,000 tons last year; Denmark and the Netherlands together account for nearly 40 per cent. Exports from the United States and Canada are usually negligible but in 1955 the United States disposed of 91,000 tons of butter and butter oil out of surplus stocks. The U.K. is the largest importer, taking over 70 per cent. of world exports in 1955. West Germany was the next largest, with less than 8 per cent.

The demand for butter is highly elastic and butter competes directly with margarine. Owing to different degrees of price support and protection, the price of butter varies widely: from over 736/– a cwt. (6s. 7d. a lb.) wholesale in France to 260/– (2s. 4d. a lb.) for New Zealand butter in London. In the U.K., there is a free market with a low specific duty of 15/– per cwt. (now less than 6 per cent.), with free entry for Commonwealth butter. The table overleaf shows the level of wholesale prices in February, 1957, compared with a year earlier.

That French prices were unchanged was due to restriction of imports and state trading, private imports being prohibited and such imports as were needed to maintain stability being imported by a government agency called *Interlait*. Prices in Belgium and Germany rose and in February of this year were more than twice that of New Zealand butter in London. The big fall in prices in recent months on the London market was caused by exceptionally large arrivals from Australia and New Zealand in January, 1957.

The object of organized marketing would be to smooth out these extreme disparities of price and to avoid sharp fluctuations of price. According to preliminary discussions of a dairy products group set up by the "Green Pool" Conference, the method adopted might be an extension of the system now applied in the Benelux Union. An agreed minimum price is fixed, below which exports of Dutch butter are subject to an export levy. When, for example, the price in Belgium is 95 fr. per kg. and Dutch butter is 65 fr., an export levy of 30 fr. is imposed and the proceeds of this levy are shared between the two governments.

If a multilateral scheme of this kind were to be adopted by the Messina Six, Australia and New Zealand might wish to safeguard their interest in two ways: (1) to ensure that Commonwealth butter was not excluded from the Continental

Country	*Market*	*Price* Feb., 1957, *Sh. per cwt.*	*Price* Feb., 1956, *Sh. per cwt.*
France	Paris	736/1	736/1
Belgium	Hasselt	696/-	671/4
Germany	Kempten	544/4	534/9
Netherlands	ex-factory	417/4	458/11
Denmark	Copenhagen	367/9	401/11
United Kingdom	London		
Dutch unsalted		335/-	412/-
Danish		290/-	405/-
New Zealand, finest grade		260/-	383/-
Australian, choicest grade		258/-	380/-

Source: Commonwealth Economic Committee *Intelligence Bulletin*, February, 1957.

markets, and (2) to ensure that surplus butter from the Continent was not dumped on the London market at prices below an agreed minimum. That being so, Australia and New Zealand might seek either to join the scheme or to negotiate a supplementary agreement with the participating countries. In either case, the U.K. would almost certainly wish to have a voice in any plan to regulate shipments to the London market.

The case of butter may prove to be exceptional, but it has been taken as an example to show that the U.K. and the Commonwealth may be closely concerned in some of the plans for regulated marketing adopted on the Continent. In the case of other livestock products—live cattle, meat, canned milk and eggs—the U.K. has been expanding its own production and might wish to retain its freedom to export to the Continent. (The U.K. is now the largest exporter of condensed milk in the Commonwealth.) In any case, we might find it in our interest to have a voice in any "special arrangements" that may be proposed for these commodities.

Enough has been said to suggest that there is a *prima facie* case for taking part in the discussion of organized marketing schemes. It is a misnomer to call these schemes either Free Trade or a Common Market. But if such schemes are what is envisaged as the "special system" for agriculture in a free trade area, we need not boggle overmuch at a misuse of words. The important question is whether a regional agreement for regulated marketing would be accepted under G.A.T.T. as ground for a waiver, if a waiver is needed; and that issue is best settled commodity by commodity. In the case of dairy products, at least, both the Commonwealth countries and the U.K. should have a right to intervene, since any regional agreement to which Denmark and the Netherlands were parties would be bound to have unpredictable repercussions on the smooth functioning of the world market for butter in London.

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The tentative conclusions to which this analysis leads may be summed up as follows:

1. It is misleading and irrelevant to debate whether agriculture should be included in or excluded from the

proposed free trade area, since no country (except possibly Denmark) is contemplating free trade in agricultural products.

2. A more promising approach to co-ordination of agricultural policies, affecting production and prices as well as imports and exports, is that set out in the First Report of O.E.E.C.'s Committee of Ministers for Agriculture and Food. This does not rule out special arrangements for regulated marketing in exceptional cases.
3. The report of the O.E.E.C.'s Working Party suggests that special arrangements of this kind are what other O.E.E.C. members may have in mind for dealing with agriculture in the context of a free trade area, though detailed plans have not been worked out. There seems no reason why the U.K. should not take an active part in discussing detailed plans for regulating the marketing of some but not all agricultural products, provided that they are in accordance with the O.E.E.C. objectives of expanding trade.
4. If an expression is needed to denote this new approach to economic co-operation in the sphere of agriculture it might be called Fair Trade for agricultural products, as a parallel to Free Trade for industry.
5. The right body to undertake the task of studying the problems of trade in agricultural products, commodity by commodity, is the O.E.E.C. Ministerial Committee for Agriculture and Food.

London. E. M. H. Lloyd.
March, 1957.

The Economist in Whitehall

By I. M. D. Little

THE Treasury and the Bank of England suffered considerable criticism as a result of the inflation of 1955–56. The authorities were blamed for failure to recognize the inflationary trend in time, and for failure to act quickly and decisively enough. Last summer, for instance, the *Spectator* delivered quite a strong attack on the Treasury, and the more sober *Economist* wrote: "Experience in recent years suggests that the economic technicians behind American economic policy have a much more sensitive and sure judgment of the economic indicators that their statisticians supply than the British display".

Much of this criticism is probably unjustified. First of all, these critics cannot be well informed about the advice the Chancellor gets from his "experts". Secondly, most financial journalists and some economists (especially when they turn to journalism) exaggerate the extent to which inflationary or deflationary tendencies can be correctly diagnosed before their main effects are felt. In particular, I think, *The Economist's* judgement is incorrect. The relevant difference between Britain and America is that the political climate in the United States is such as to tolerate greater unemployment than here. As a result of the latter, the Americans take more risks with deflation, and we take more risks with inflation. The upshot has been that since 1948 our levels of employment have been relatively higher than those of the U.S., but their prices have been more stable.

There is no reason to suppose that official American economists are better at guessing the future from a given knowledge of the present, nor that they are better at guessing the effects on the economy of governmental action. What is true is that their economists have more to go on, for their statistics are better than ours. Even so, the feeling that Ministers may not be as well advised on economic matters as they could be may be justified. In March, 1956, Mr. Macmillan, as Chancellor of the Exchequer, received a delegation headed by Sir Robert Boothby which told him that the advice he got was badly co-ordinated and based on inadequate information.

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There is some evidence that they were preaching to the converted (or, more improbably perhaps, that what they said converted the Chancellor). The appointment of Sir Roger Makins as Joint Permanent Secretary to the Treasury, solely responsible for economic affairs, is some indication that he considered greater co-ordination to be necessary.

This article will discuss what room for improvement there is, and how it can be achieved. I have some views, since I was deputy-director of the Economic Section of the Treasury from 1953 to 1955. But this equally means that I must temper frankness with discretion: also, of course, any views I express are purely personal. But, within these limits, I shall try to add something to the discussion that has been going on.

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To appreciate the issues, it is essential to realize the difficulty and complexity of the tasks which governments have taken upon themselves. All governments now admit themselves responsible for ensuring "high and stable" levels of employment. This has come to be interpreted in a very strict manner indeed. Unemployment of over half a million—a little over 2 per cent. of the working population—would now be enough to evoke cries of mismanagement. But one cannot go much below this figure without excess demand and inflation resulting. Only a remarkably accurate balancing of economic forces is regarded by politicians and the public as good enough.

The management of our economic affairs would not be so difficult if excess demand had less serious results. But in a country highly dependent on foreign trade, and with foreign exchange reserves seriously inadequate in relation to our trade and liabilities, excess demand can rapidly cause a foreign exchange crisis. This necessitates a damping down of demand which, in its turn, given our inadequate knowledge of the power and rapidity of action of the fiscal and financial controls which can be applied, may easily go too far in the opposite direction.

Governments are not concerned with full employment alone. Although not formally committed to any responsibility for a rapidly increasing national income, nevertheless any tendency to stagnation would, if sustained for long, be politically embarrassing. Increasing productivity is now seen partly as the only means by which some stability of prices can be achieved in the face of the now apparently inevitable

yearly round of wage increases: but fundamentally it is needed in order to raise living standards and remain an important power, people having become increasingly nervous about the remarkable growth which the U.S.S.R. continues to achieve. Moreover, as Mr. Butler realized, the promise of progress has political appeal.

Even so, full employment and rapid growth are not the only objectives. Price stability, too, is an important economic aim. It is the one we have manifestly failed to achieve and is itself, to some extent, a condition of steady growth and full employment. If we price ourselves out of world markets, the government would be forced to take deflationary action to restore the trade balance: and this would be very likely to interrupt progress, undermine confidence and cause unemployment. Devaluation of the currency is always an alternative; but until it had become clear that full employment and a healthy balance of payments could not otherwise be restored, governments would rightly seek to maintain the existing exchange parity—rightly because, among other disadvantages, devaluation itself tends to aggravate the rise in prices.

These conflicting aims have to be reconciled in an economy in which a very considerable degree of freedom of economic decision must be allowed to the individual. Different parties put different emphasis on this, but none wants any really comprehensive substitution of administration for the working of ordinary economic forces. To achieve this reconciliation, if indeed that is possible, a fine balance of over-all supply and demand is essential. A few hundred millions too much demand—around 2 per cent. of the national income—suffices to cause overfull employment, encourages wage and price increases, and is quite likely to promote an exchange crisis. A few hundred millions the other way, and demand may be insufficiently buoyant to stimulate investment and encourage growth, and unemployment may begin to appear.

Moreover, even if it seems that the potential supply and future demand will balance without inflation, that still may not be enough: for investment may seem inadequate to maintain a high rate of growth, or, what is more serious in the short run, the balance may be struck by an excessive inflow of goods from abroad or inadequate exports. (The inadequacy of our reserves makes it impossible to ride out a boom which given time might well cure itself.) Urgent action may then be necessary, which will set in motion complex readjustments in the economy, the outcome of which is often extremely

difficult to predict. For instance, some of the action taken in the Budget each April may have little effect in the current year. In the following year the measures may begin to bite, but their effects may still be operating several years ahead, for much longer ahead than one can reasonably make estimates. In financial terms one can budget for a year ahead, but no Budget can be thought of as balancing the economy for any precise period of time. There is thus always the danger that by the time action to correct an apparently dangerous trend becomes effective, the trend will have naturally reversed itself.

The difficulties are increased by the fact that not nearly enough is known about the strength and speed of operation of the remedial actions taken. This ignorance varies with the kind of action. One can, for instance, be reasonably confident of the order of magnitude of the effects of indirect taxes on consumption, and know something of the timing. Perhaps at the other end of the spectrum of uncertainty lies Bank Rate and monetary policy. It became all too obvious in 1955–6 that no one had much idea of how great the effects of increasing Bank Rate and of the various monetary controls would be, on what kinds of spending they would fall, and when.

The problem has become more difficult recently, as the economy has become freer. This is not meant as an argument for extensive control, which creates plenty of problems of its own. But it is obvious enough that if control is enforced on some components of demand (through, e.g. building licences, food rationing), and on some components of supply (through, e.g. import controls), their estimation becomes easier. But so also is the problem of adjustment made easier. For instance, if investment were rigidly controlled, then it would be possible to encourage consumption without having to speculate about the resultant effects on investment. Or, again, one could encourage investment without the danger of its running away. The point is that, the less the control, the more natural economic forces operate and the more essential it becomes to understand and influence them. The need for planners, who partly replace freely operating economic forces, has given way to a need for those who understand the forces well enough to manipulate them.

That I have dealt above only with the short-run balance of supply and demand is a reflection of the fact that it is this problem which tends to overshadow all other economic issues. It is also the problem which predominantly exercises

the expertise of the professional economists in the Treasury. But it should be emphasized that any modern government, however *laissez-faire* in detail it may wish to be, inevitably interferes in the economy in many more ways than can be subsumed under the heading of "balancing supply and demand". Its own levels of current expenditure and taxation are sufficiently great for it to have a very powerful influence on the structure and the future viability of the economy. Also, it is ultimately responsible for a large part of long-term investment, in particular the investment of the nationalized industries.

In fact, whether a government likes it or not, whether it has a plan or no plan, it determines to a significant extent what as a community we spend our money on, what we import and export, both now and in the future. If I neglect these longer-run aspects of economic policy, it is largely because professional economic advice still plays a rather small part in influencing the many rather disjointed decisions which together determine the long-run influence of the government on the structure and functioning of the economy.

* * *

Let me now turn to the economic advice and information which the government receives, concentrating on that which is relevant to the problem of the over-all balance of supply and demand.

Information can be briefly dealt with, not because it is unimportant—it is obvious that the best knowledge of the current state of the economy is required for making the best estimates of its future states—but because Mr. Macmillan, when Chancellor, seemed to be convinced of the fact that our economic information falls short of what is both possible and desirable. Recently there have been improvements and more are promised; but until these are achieved, the standard falls behind American practice, both in coverage and in the speed and frequency with which figures are supplied and processed. Our economists have to guess the past—and the present—as well as the future. The argument against more rapid improvement has been that industry is suspicious and unwilling, and that its co-operation is essential. The latter argument is true, but the former is overdone. Moreover industry has recently become more co-operative, a fact which can probably be attributed mainly to the removal of controls.

The Treasury is the most important organ of economic advice. The parts of the Treasury chiefly concerned with over-all economic policy are Overseas Finance (O.F.), Home Finance (H.F.), the Central Economic Planning Staff (C.E.P.S.), and the Economic Section. The Economic Section is staffed mainly, though not entirely, by professional economists. Apart from the director, Sir Robert Hall, there are usually five or six economic advisers, only some of whom can usually be said to be very experienced. There is also a number of assistants.

The C.E.P.S. was set up under Sir Edwin Plowden in 1947 and except at the beginning of its existence it has not employed economists. There may be a case for having economists as planners. Certainly, during the war most economists were in Whitehall planning; whether they were particularly good at it I do not know. But, in any case, planning with detailed controls requires a very different kind of economic expertise from that which is relevant now that the forms of control are so much more general. As I have indicated, the difference is roughly that between supplanting the economic forces which govern the distribution of resources, and understanding and influencing those which govern the over-all level of supply and demand. With the decline of planning the C.E.P.S. now rather belies its name.

The O.F. and H.F. sides of the Treasury are, of course, very much concerned with central economic issues. That H.F., with its interest in the finance of government expenditure, must be intimately concerned with central economic policy is obvious enough. Also, our foreign economic policy, through its influence on our exports, imports, and "invisible" payments and receipts, has direct repercussions on home demand and supply. Equally, the state of the home economy has direct effects on our foreign trade and payments. The best foreign economic policy cannot be determined apart from the ends to be considered at home; nor can the best policy at home be divorced from what is desirable so far as our international economic relations are concerned. These administrative sides of the Treasury do not employ professional economists as such.

I should be saying too much if I attempted to describe the relation of the Economic Section to other parts of the Treasury. But it should be clear from its size that it is not in a position to enter fully and intimately into all aspects of economic policy, at least not with the profound knowledge

which is required if its opinions are to be as soundly based as they might be. This is true especially since quite a lot of the time of its members is taken up with routine matters. Furthermore, one is continually working up against the frontiers of economic knowledge. The Section is too small and too busy for its members to have reasonable opportunities of trying to extend these frontiers, or for any profound study of longer-term policy issues.

* * *

Such is the set-up. Thanks to Keynesian ideas (and the war) the economist has found his way in. He occupies a niche —and as far as some aspects of economic policy are concerned it is a large niche; but his influence by no means permeates the whole structure. Whether it ought to do so depends on whether economists are better at forecasting, and better at judging the economic consequences of alternative policies, than are administrators (or bankers).

This cannot be taken for granted. Before I became an economic adviser I found it rather hard to understand why economists were likely to be useful (except in rather limited ways). It seemed to me that the basic essential framework of applicable ideas was so simple and limited that any able man concerned with economic affairs could and would acquire them as he went along, without any need of formal training. As soon as one strayed beyond this very limited corpus of thought, economic theory became inapplicable. And as for any really professional methods of prediction—well, any sensible economist regards them as exploratory exercises in method rather than as something to be trusted in practice.

My experience in Whitehall cured the malaise which derives from thinking one's subject overblown. This is not to say that a knowledge of academic economics is a *sine qua non* for offering good advice on economic affairs. There are first-class practitioners of the art who would not shine in a university seminar. But I was convinced that an extensive knowledge of economic theory and controversy (as well as a quantitative acquaintance with economic facts and some knowledge of modern economic history) is helpful—more helpful than Latin, Logic and Ancient History.

Economic theory teaches one how economic magnitudes are related, and how very complex and involved these relationships are. Non-economists tend to be too academic. They

abstract too much from the real world. No one can think about economic issues without some theory, for the facts and relationships are too involved to organize themselves: they do not simply fall into place. But if the theorist is untutored, he is apt to construct a very partial theory which blinds him to some of the possibilities. Or he falls back on some old and over-simple theory, picked up from somewhere or other. He is also, I believe, apt to interpret the past naively. *Post hoc ergo propter hoc* is seldom an adequate economic explanation. I was sometimes shocked by the naive sureness with which very questionable bits of economic analysis were advanced in Whitehall. Of course, economists may be too academic in another sense: they may not appreciate administrative difficulties, or may lack a sense of political possibility. But, then, there is no danger of these things being overlooked.

I think no one denies that economic training is essential for an understanding of national income accounting, or for estimating the various components of the national income, and advising how they affect each other and how they may be influenced. When I say I believe that the services of professional economists are valuable, I mean in ways that go beyond these admittedly rather technical matters.

Thus, I have come to believe that professional economists should play a somewhat greater part in forming and advising on economic policy. There seems to me to be no doubt that economic advice on central issues should be centred in the Treasury, and that the central staff of official economists should be organized as a section of the Treasury. The reason for this is that the Budget and, in general, the manipulation of government receipts and payments, constitutes our main economic weapon. The major part of the work of any central staff of economists must be for the Chancellor, and close co-operation with Treasury officials at all levels is essential.

I have mentioned that the various administrative sides of the Treasury, although they play a large part in forming economic policy, do not employ professional economists. Nor do I think they should, for this would be wasteful of talent; the number of suitable economists available for public service is very limited, and likely to remain so. I believe it would be preferable to strengthen the Economic Section, rather than to have any "Central Economic Staff" outside the Treasury, or to have smaller gangs of economists dispersed among the different sides of the Treasury. Now that controls have almost vanished, economic policy must, more than ever, be viewed

as a whole: and I do not think this can best be done if economic advisory units are attached to different sides of the Treasury the administrative duties of which are bound up only with particular aspects of the economic problem.

Strengthening the Economic Section is not too easy.[1] It would be useless to enlarge the establishment if there is no one to fill the jobs. The requirement is for economists who will come for a limited period—three to five years is best. Permanency would be wrong, for no one can remain an up-to-date professional economist for very long in Whitehall. But there is a very limited number of well-trained economists in the country with the right personality (and a certain *savoir plaire* is essential). Most of these are in permanent and secure posts from which temporary release is difficult.

The first essential is more pay! It is in most cases a financial sacrifice for a don to go to the Economic Section. More high-ranking posts are needed. It would also be a great advantage if Whitehall economists could be allowed more time to sit back and consider the more theoretical aspects of their work, and were given greater freedom to publish. In short, the government should recognize that they must offer competitive rates for economists, and make conditions attractive. If something is not done soon, I think the quality (and prestige) of the Economic Section is in danger of declining.

* * *

I have indicated that I think some improvement in economic advice could be quite quickly effected. It would be wrong to suppose that it could make a lot of difference. But there should be a greater chance of avoiding mistakes, although basic economic knowledge and expertise is not good enough for one to be confident that substantial improvement in our economic performance can be effected. Everyone—politician, economist and official—has learnt the Keynesian lesson of how to correct large short-term maladjustments of supply and demand. But much more than this is needed if a smooth rate of progress is to be achieved, without inflation or unemployment.

[1] It must not be thought that I am in any way hinting that the Section is, at present, no good. That would be grossly unjust. Many of its members are excellent, and I think that the Section, as a whole, is very good. But it could be better still; it could also be larger, and have a wider influence.

Yet this is what governments aim at. They often disclaim part of the responsibility, and lay it on businessmen and the trade unions. But I think they should recognize, more than they do, a responsibility for improving the methods of economic steering which they use. I believe that economic research applied specifically to furthering the economic knowledge most required for efficient direction of the economy tends to fall between two stools. Whitehall's own research is usually too short-term, and suffers from being overhastily conducted when there is a lull in the pressure of everyday business. Rather more fundamental research cannot safely be left to the universities. Most university teachers and professors lack the time, the information and an inside knowledge of what is wanted. Countless theses of no deep theoretical interest, or practical use, are produced every year by graduate students. Some of these would be better employed doing directed work of more potential use.

Sometimes private research institutions do work of direct interest and importance to policy. Much more is needed. It should certainly be possible, by more co-operation between officials and outside economists, and with more money, to improve our methods of short-term economic forecasting, to increase our knowledge of the timing and magnitude of the effects of the various measures which governments take to influence the level of demand. This would require a continuous and patient analysis of current economic history based on the fullest information obtainable. This essential work is scarcely done at present either in Whitehall or the universities, except in bits and pieces, by fits and starts. Indeed, it seems to me that much useful economic experience and expertise is allowed to evaporate in Whitehall. Officials get moved, resign, die, or simply forget. Once an economic decision has been taken, they are usually too busy with the next issue to have time to devote to a full analysis of the effects. More experience needs to be committed to paper, and more post-mortems conducted. We write long economic histories of the war, but neglect the peace.

Perhaps this, and other, gaps could best be filled by creating a new semi-official economic research institute. Its members would not be officials, though appointments might have to be approved by the government, since close contact with officials, and access to confidential (and some secret) material and opinions would be necessary. Exchange of personnel with the Economic Section of the Treasury and

close co-operation with its director should be normal. Other officials might well be seconded to it for a while, to provide them with a welcome rest from their administrative cares, and to give them time to think and to record their experience.

Such an institution would also help to increase the supply of trained economists for the government service proper. Publication of results should be permitted whenever possible, for this would make it much easier to attract good economists. Difficulties posed by its semi-official status should not be insuperable. In the U.S.A., many academic economists spend a lot of time working on "classified" material for the defence services in such institutions as the Rand Corporation (and where their methods are of wider interest they are sometimes published in disguised form).

The institute need not concern itself only with the problem of short-term balance. Indeed, I have suggested that longer-term policy is often settled without any thorough economic analysis having been conducted. I recognize the limitations of economic analysis without believing it to be worthless. Such analyses might be conducted on behalf of departments other than the Treasury. Even where the individual departments themselves employ economic advisers, they might benefit from studies conducted by an institution with full access to the facts but free from day-to-day concern with the political and administrative worries which can make one blind to long-term economic implications—and also free from the departmental loyalty that can make one forget that the economy functions as an integrated machine which cannot itself be departmentalized. Fuel policy, or its absence, is too much of an old hobby-horse of mine for me to do more than mention it in this connection. But I also think that Agriculture and Transport and no doubt other Ministries might benefit if there were more long-term thinking, which was not suddenly called into being by the exigencies of some crisis, or by changing political mood.

The same applies to the Treasury itself. It sometimes seemed to me that a new line of policy was invented and even accepted, in response no doubt to a change of Minister or at least a shift in the Minister's attitude, with a startling rapidity which made impossible a full appreciation of what it might involve, and whether it would really meet the government's aims. Sometimes these matters could be anticipated, whether due to a change in economic reality or governmental aims, and more adequate study undertaken. An institute of

the kind suggested could, I think, help to get economic decisions made with a more stable background of economic appreciation, and help to soften the somewhat doctrinaire approach to certain issues of economic policy which is shown by both the major political parties.

Governments have tended to promise rather more in the way of economic performance than they have the means to achieve. But I think that, along the lines indicated, a slow improvement in the means is possible. In particular, the existence of an institution with close access to Whitehall, but whose views were not official, should permit the better performance of some of the things now done by officials, including an improvement in the methods used for forecasting and controlling demand, with the further advantage of publication and outside criticism.

I. M. D. Little.

Nuffield College,
Oxford.
February, 1957.

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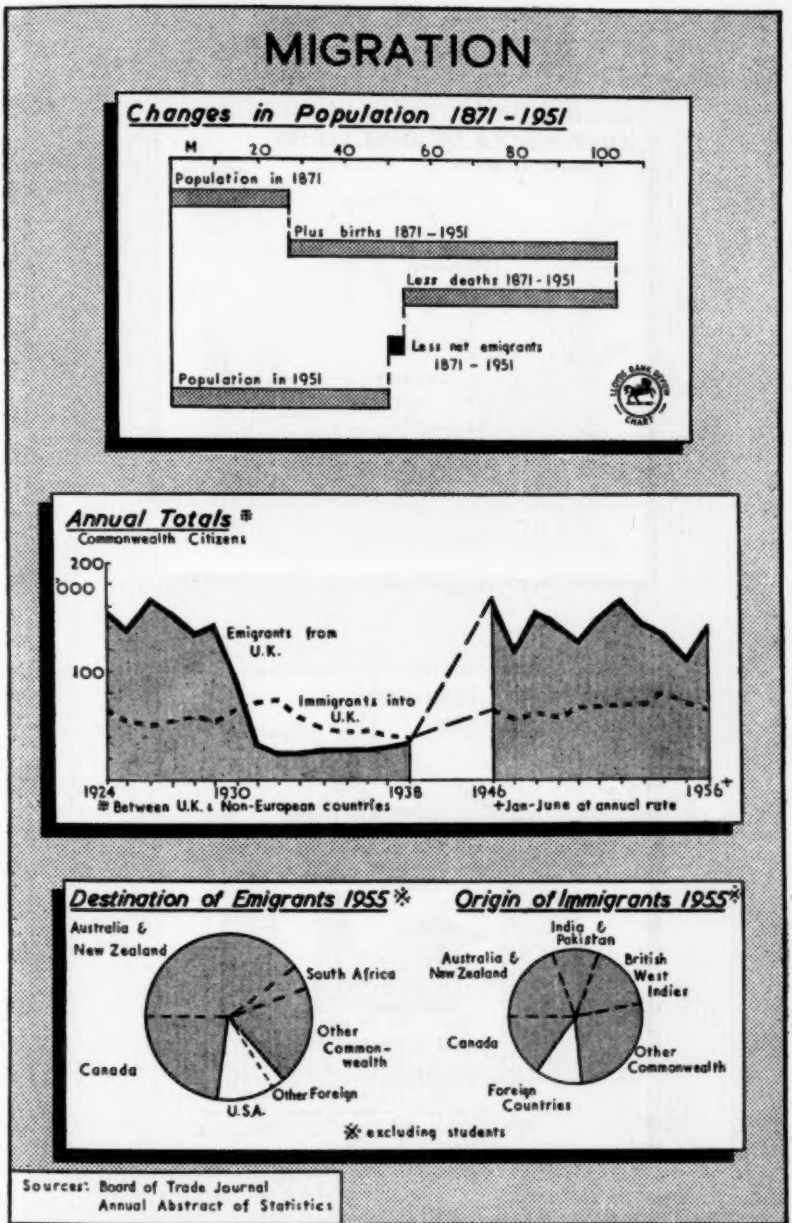
Publications Received

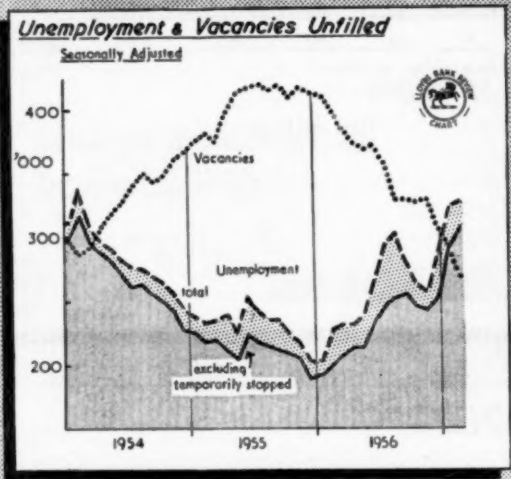
SURVEY OF MANUFACTURING ACTIVITY IN AUSTRALIA—OCTOBER 1956

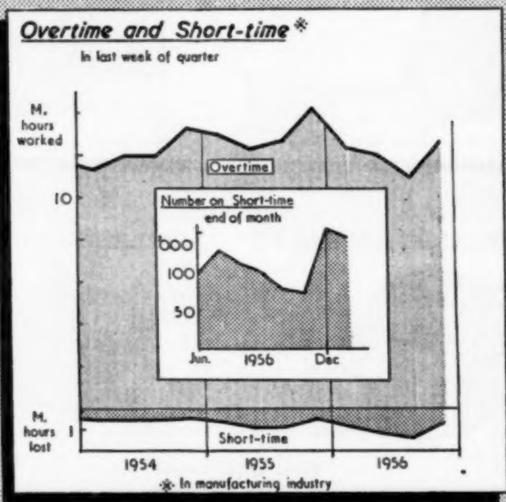
This is the latest in the series of six-monthly surveys undertaken by the Industries Division of the Australian Department of Trade, aimed at ascertaining quickly and accurately the current level of activity in key manufacturing industries. The survey is based on interviews with selected industrialists and others in all States of the Commonwealth, the sample being chosen to cover those firms and industries which are likely to show early evidence of significant trends and changing conditions. After a brief general report on the current situation, details on production, demand, stocks, employment, costs and prices, etc., are given for individual industries. Copies of the survey, which should be of value to all those interested in the Australian market, may be obtained from The Senior Government Trade Commissioner, Australia House, London, W.C.2.



Emigration from the U.K. since the war has been at about the same level as in the 'twenties. Out of every 100 emigrants in 1955, on the average 40 went to Australia and New Zealand and 23 to Canada.

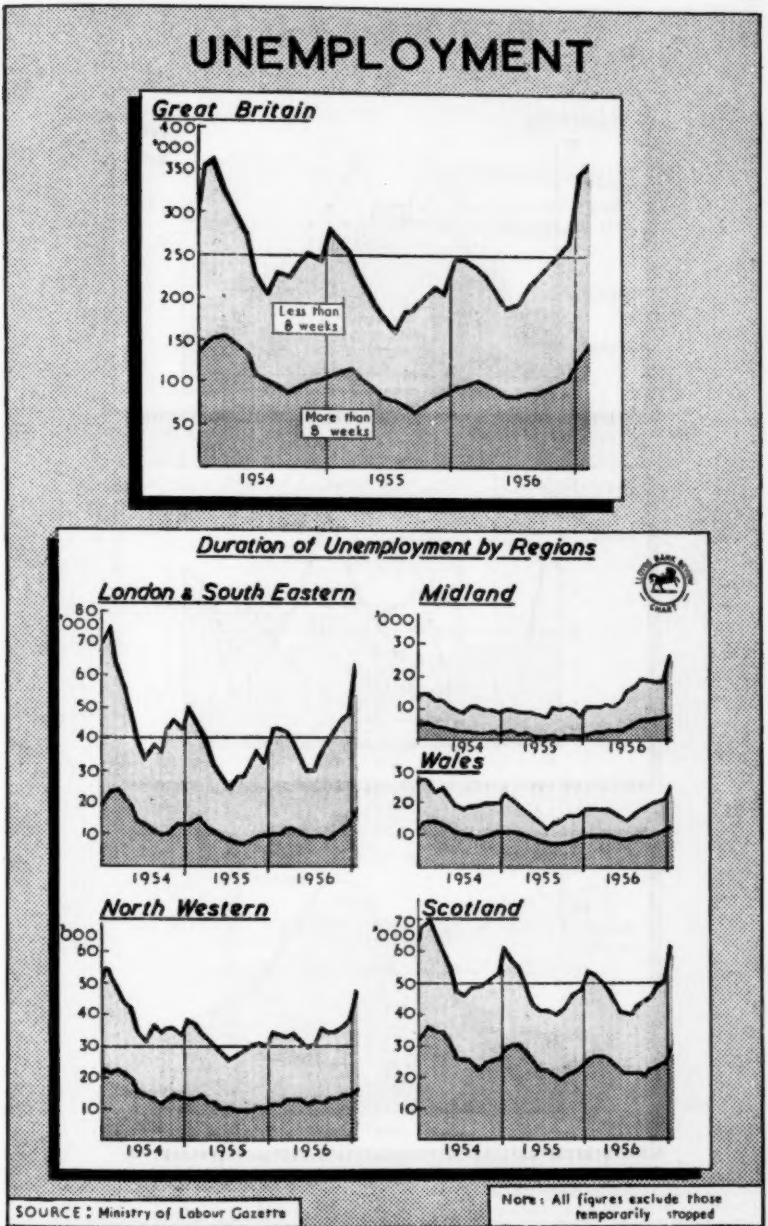
UNEMPLOYMENT



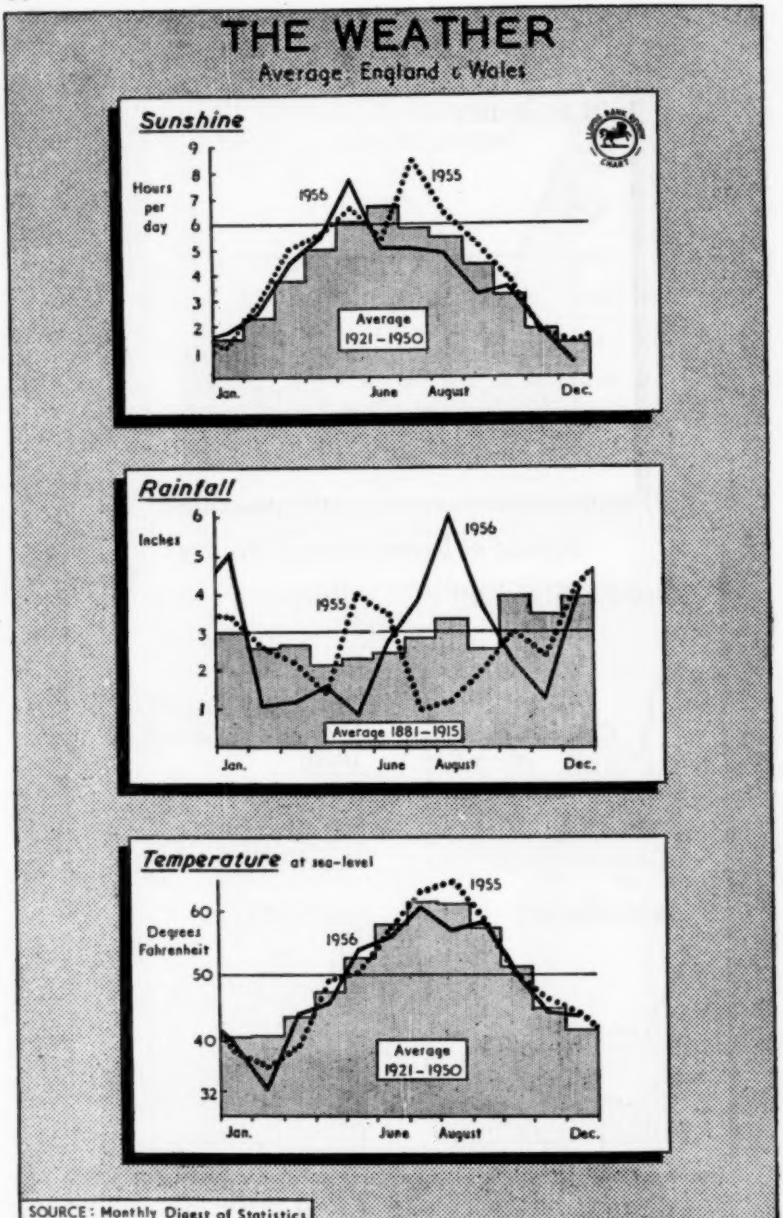


SOURCE: Ministry of Labour Gazette.

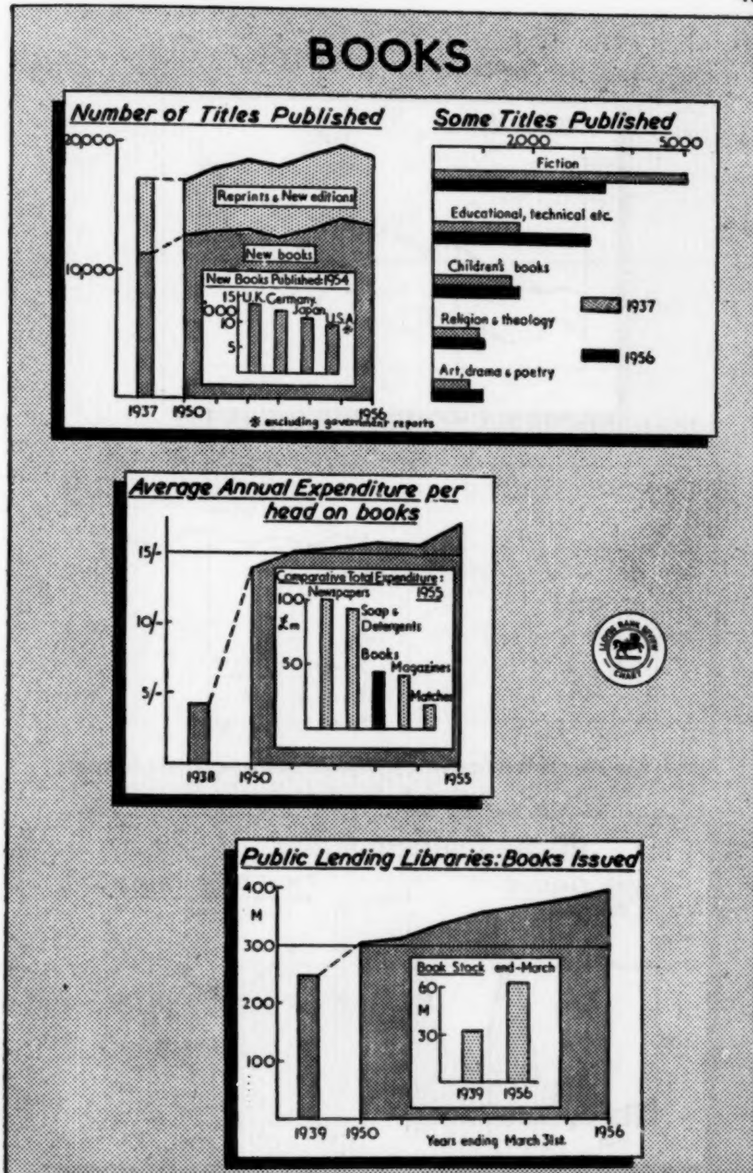
For the first time since 1954, vacancies on offer now fall short of the number seeking work. In November last the amount of overtime being worked was considerably less than a year previously.



In February, there were 110,000 more people wholly unemployed than a year ago, but only two out of every five had been out of a job for eight weeks or more.



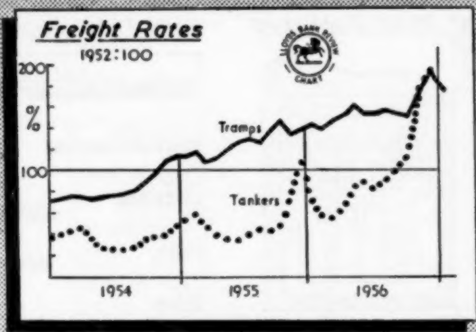
The above charts bring out the notorious unpredictability of the English climate. Last year, for example, August was the wettest month, while in 1955 it was one of the driest.

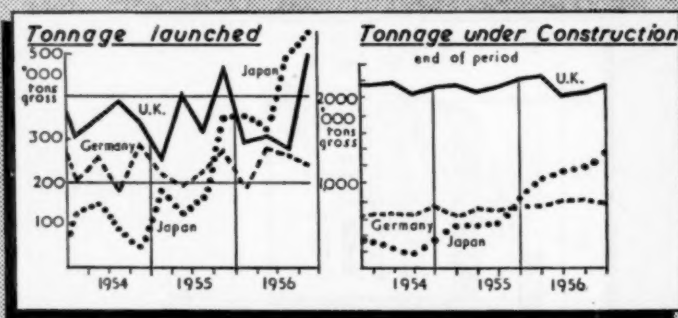


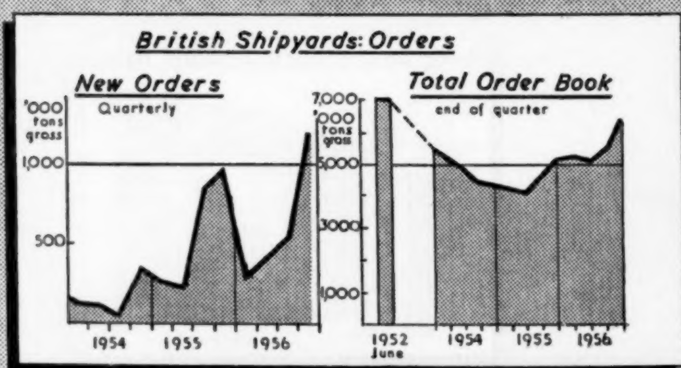
SOURCES: The Bookseller, Annual Abstract of Statistics, Unesco: Basic Facts & Figures.

The charts show the swing away from fiction towards educational and other works. Expenditure on books exceeds that on matches but falls considerably short of that on soap and detergents.

SHIPPING

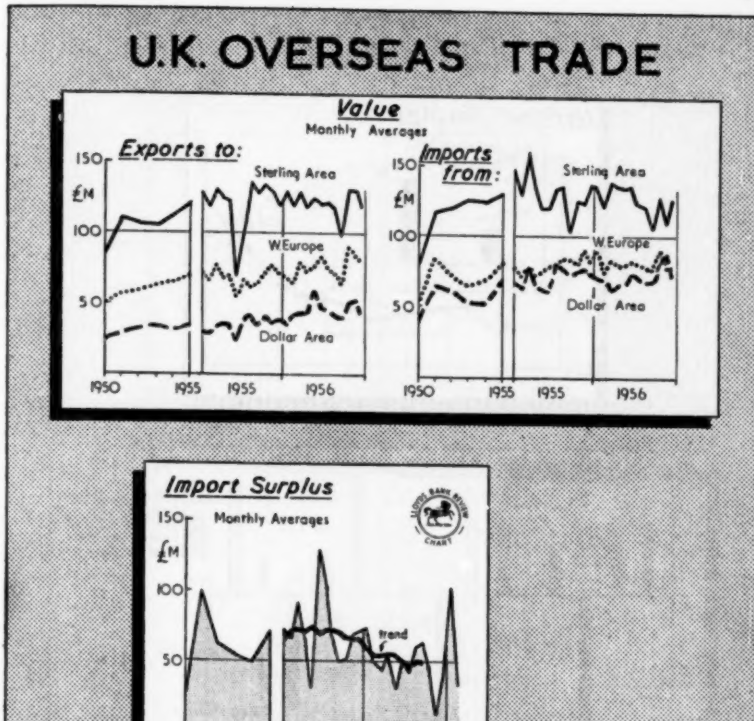






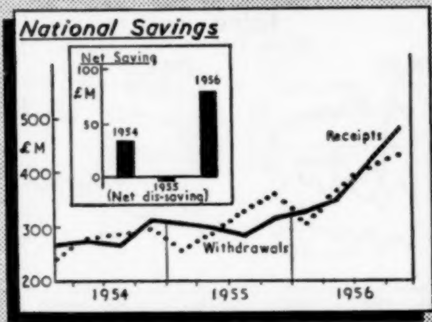
Sources: Chamber of Shipping
Shipbuilding Conference
Lloyd's Register of Shipping

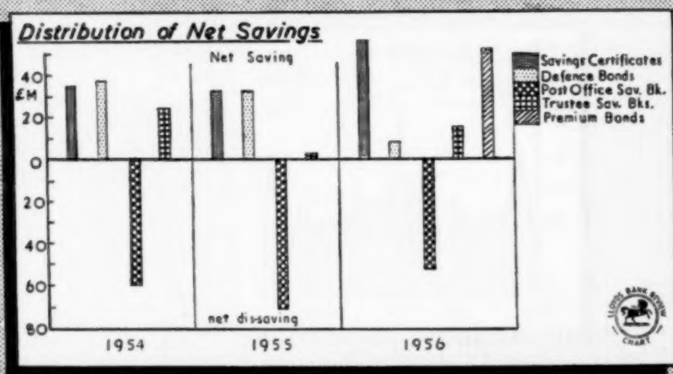
While tonnage launched in the U.K. last year was less than in 1955, Japanese launchings more than doubled. New orders booked by British shipyards, however, brought the total order book by December to the second highest level since the war.

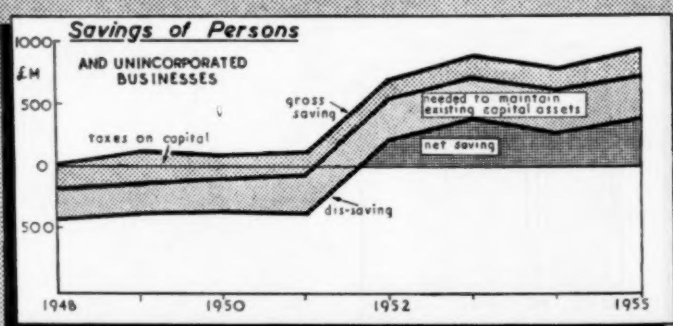


Exports in 1956 increased in value by nearly 10 per cent. (and in volume by 6 per cent.), the rise in shipments to non-sterling countries being greater than for any year since 1950. Imports, in contrast, were practically unchanged.

SAVINGS

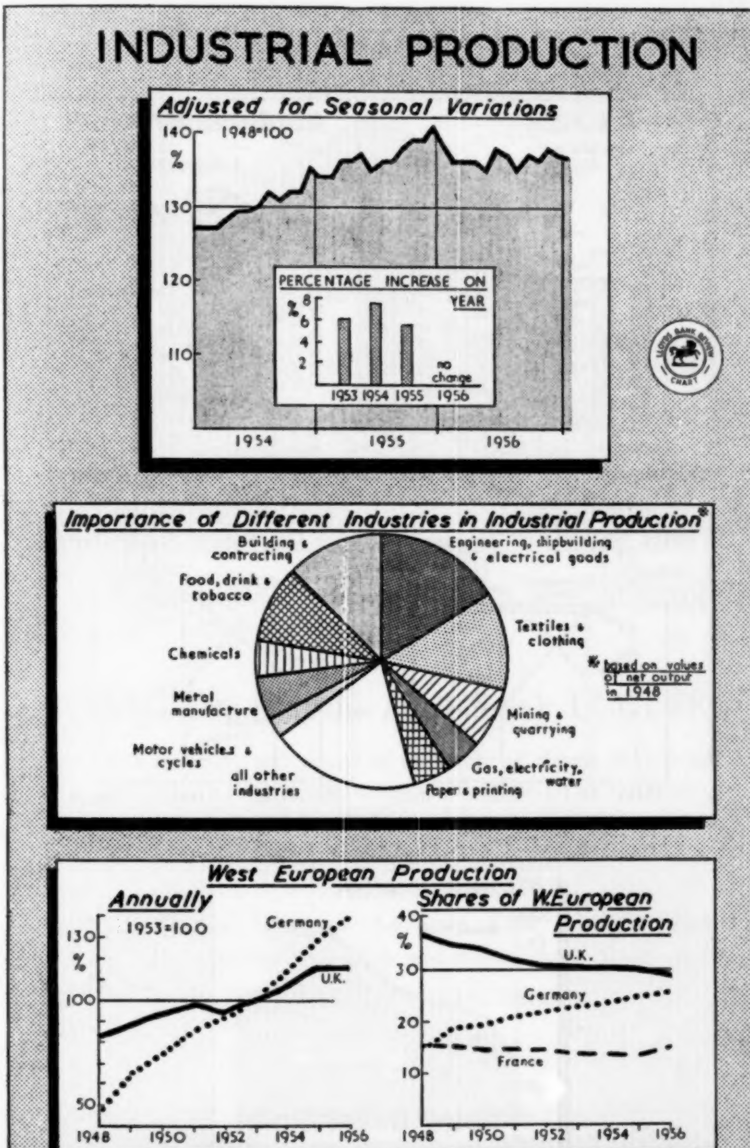






Sources: National Savings Committee
National Income Blue Book, 1956

National savings last year made an impressive recovery from the negative outcome of 1955. Apart from Defence Bonds, all media showed a net improvement. Sales of Premium Bonds in November and December almost equalled net sales for the whole year of National Savings Certificates.

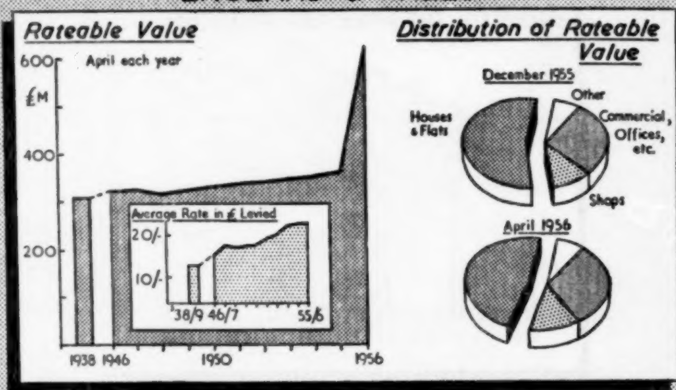


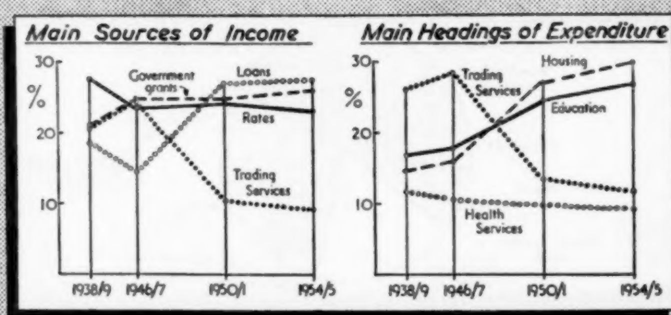
Sources. Monthly Digest of Statistics
O.E.E.C. Statistical Bulletin

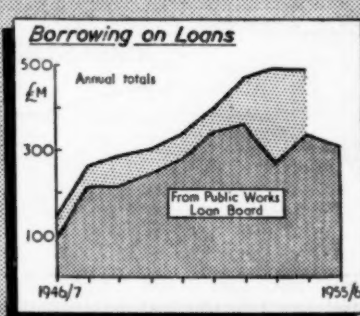
Note: In bottom chart figures exclude building & those for 1956 are average Jan.-Sept.

With U.K. industrial production more or less level for the past eighteen months, 1956 saw no increase on 1955. Germany, in contrast, recorded a further rise.

LOCAL AUTHORITIES
ENGLAND & WALES







SOURCES: Local Government Statistics
Rates & Rateable Values, 1956

The new list last April reduced the share of rateable values represented by domestic property to just under half the total, while that of shops and commercial property rose from 32 to 42 per cent. From April this year, however, the rateable value of most of the latter is to be cut by a fifth.

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MARDON, SON & HALL, LTD.,
BRISTOL, ENGLAND.